



Date: September 26, 2003

To: Mayor Greg Nickels, City of Seattle
Councilmember Margaret Pageler, Chair, Council Water and Health Committee

From: Susan Cohen, City Auditor *SC*

Subject: Seattle Public Utilities' and the Departments of Transportation's and Parks and Recreation's Compliance with the Washington State Accountancy Act

The Office of City Auditor initiated a review of the Seattle Public Utilities memoranda of agreement to determine whether the agreements between Seattle Public Utilities and the Seattle Department of Transportation, and between Seattle Public Utilities and the Department of Parks and Recreation, complied with the Washington State Accountancy Act. The Washington State Accountancy Act prohibits any local government institution, department or public improvement from benefiting in any financial manner by a fund established in support of another purpose.¹ We reviewed the three agencies' oversight and implementation processes to ensure that funding of utility-related components for transportation and parks projects and operations conformed to the interdepartmental agreements, as well as to the fund purposes described in City ordinances.

Conclusions in Brief

Based on our analysis of the agreements, we determined that Seattle Public Utilities and the Departments of Transportation and Parks and Recreation spent utility funding in accordance with the Washington State Accountancy Act and with City ordinances that established the Drainage and Wastewater Fund and the Solid Waste Fund. The City ordinances allow substantial flexibility in the use of fund proceeds for any drainage and wastewater or solid waste services.

We also determined that Seattle Public Utilities and the Departments of Transportation and Parks and Recreation have made progress in achieving overall City objectives. For example, all three agencies have established forums to successfully and routinely collaborate on joint projects and services of value to Seattle citizens. In addition, Seattle Public Utilities and the Department of Transportation have effectively evaluated and implemented alternative detention and water quality approaches, and agreed to a designated level of funding to support compliance with the City drainage code.

However, due to implementation issues and practical revisions that were agreed upon by all three agencies, current practices no longer conformed to the original master memoranda of agreement. The three City agencies could consider the following actions to accelerate progress in achieving important utility, transportation, and parks objectives:

¹Revised Code of Washington 43.09.210.

- Strengthen management oversight and accounting processes for transportation and parks projects and services. Seattle Public Utilities could also improve its documentation of procedures and practices, which are not sufficiently described in the formal memoranda of agreement, to ensure that utility funds are spent in accordance with the agreements.
- Enhance both interdepartmental and intradepartmental communications to ensure that City and department-specific objectives are achieved through more effective implementation of the memoranda of agreement.

Introduction and Background

The Office of City Auditor initiated the review of the Seattle Public Utilities memoranda of agreement in July 2001. Seattle Public Utilities' memoranda of agreement set forth the conditions for the use of drainage and wastewater funds for utility-related components of transportation and parks capital improvement projects, and for the use of solid waste funds for litter control and litter receptacle services provided by the Departments of Transportation and Parks and Recreation. Seattle Public Utilities and the Departments of Transportation and Parks and Recreation have entered into four master agreements covering the following City capital facilities and services.

- **Transportation Capital Improvement Projects**—This Seattle Public Utilities and Department of Transportation agreement provides utility funding for transportation-related drainage facilities required to comply with the City's drainage code, and describes capital project coordination processes. The agreement, which became effective in 2001, established a maximum reimbursement amount equivalent to 4 percent of the budget appropriation for Seattle Public Utilities' annual drainage and wastewater capital improvement program. Based upon the 4 percent agreement, Seattle Public Utilities budgeted approximately \$1.7 million in 2001 and \$2.1 million in 2002 for transportation capital projects.
- **Restoration and Management of Creeks, Habitats, and Utilities in Parks**—This Seattle Public Utilities and Department of Parks and Recreation agreement provides funding for drainage and wastewater enhancements on park properties, specifically for restoration and maintenance of creek corridors, habitat enhancement, watershed stewardship and public education, Endangered Species Act compliance, project coordination services, and development and maintenance of utilities in parks. The agreement also establishes a utility-funded Watershed Coordinator position in the Department of Parks and Recreation. A maximum reimbursement of \$900 is provided for all Department of Parks and Recreation design plan reviews for utility projects constructed on park properties, and \$100,000 is budgeted for the Watershed Coordinator's salary and benefits. Seattle Public Utilities budgeted \$1 million in 2001 and \$5.4 million in 2002 for restoration activities in City parks.

- **Litter Control in Downtown Parks and Litter Receptacle and Recycling Services in West Seattle Parks**²—This memorandum of agreement provides solid waste funding to the Department of Parks and Recreation for litter control and litter receptacle and recycling services in downtown parks, as well as street receptacle services in West Seattle. The agreement establishes a maximum reimbursement of \$202,000 annually for litter control services, and a maximum of \$428,000 annually for litter receptacle and recycling services in parks.
- **Litter Receptacle Servicing on Public Sidewalks and Other Services**—This Seattle Public Utilities and Department of Transportation agreement identifies responsibilities and funding arrangements for litter receptacle placement, collection, refurbishing and replacement on public sidewalks; cleanup of illegally dumped materials; and on-demand services for recycling and disposal stations, and household hazardous waste facilities. The agreement establishes a maximum annual reimbursement of \$740,000 from the Solid Waste Fund for litter collection and other services performed by Department of Transportation personnel.

This report presents our observations and analysis of the three agencies' oversight responsibilities and practices for implementing the utility-funded projects and services under the four master memoranda of agreement.

Observation 1: Seattle Public Utilities could strengthen its processes for managing and accounting for utility components of transportation and parks projects and services. In addition, Seattle Public Utilities could improve its documentation of procedures and practices to ensure that utility funds are spent in accordance with the memoranda of agreement.

Although all three agencies have established computerized project management and financial accountability systems, none of the agencies complied with the full range of monitoring and reporting requirements specified in the agreements. As a result, Seattle Public Utilities reimbursed the Department of Transportation and the Department of Parks and Recreation for services that were not provided, or for facilities that were not required by the agreements.

Both the Departments of Transportation and Parks and Recreation requested and received reimbursements without adequate documentation of the actual costs of services provided. In addition, reimbursements for some capital projects and litter services were not based on the rates cited in the agreements (e.g., monthly labor and overhead rates were used rather than unit activity costs). A lack of operating policies and procedures to support key staff in implementing the agreements contributed to the reimbursement and accounting issues identified during the review.

Oversight of Transportation Capital Improvement Projects Could Be Improved

²Although West Seattle is referenced in the litter control agreement title, the Department of Parks and Recreation indicated that the litter control and litter receptacle and recycling services agreements cover all Seattle parks. Street receptacle services are also provided in West Seattle pursuant to the agreement.

The memorandum of agreement between Seattle Public Utilities and the Department of Transportation highlights the management- and project-level challenges of implementing the transportation capital project agreement. During 2001, the first year of implementation, the Department of Transportation was unable to advance the approved slate of projects and utilized only \$78,240 of the approximately \$1 million set aside for code-required drainage facilities for transportation capital projects.

Seattle Public Utilities, concerned about idle utility funds, agreed to carry the unexpended funds forward into 2002, to fund drainage-related construction activities for an alternate slate of projects, which were designed prior to the agreement's effective date. Even though the master agreement requires that the departments develop project-specific memoranda of understanding for each capital project (describing the project scope, location, and estimated design and construction costs), project-specific memoranda were developed for only 14 of the 27 transportation projects approved by the end of 2002. In addition, Seattle Public Utilities had funded only 11 transportation projects and spent only \$1.8 million of the \$3.3 million budgeted for 2001 and 2002.

During the review, we also determined that Seattle Public Utilities reimbursed the Department of Transportation for capital expenses that were not covered by the master agreement or authorized by the responsible Civil Engineer Senior due to the absence of adequate internal controls and management systems. One contributing factor was that Seattle Public Utilities may not have assigned sufficient project management personnel to review design plans and confirm financial estimates for the projects covered by the agreements. Examples of inconsistent project practices include:

- Spokane Street—Phase 3—Seattle Public Utilities' reimbursements for this project were more than twice the amount authorized by the agreement for compliance with the drainage code, because the Seattle Public Utilities Civil Engineer Senior indicated that he did not have sufficient time to determine the actual drainage cost authorized by the agreement. The project manager, who later reviewed the project design and calculated the applicable costs from bid tabulations, indicated that the drainage and wastewater expenses were approximately \$805,200. Based on Seattle Public Utilities' accounting records, the Department of Transportation received \$1.7 million in reimbursements from the Drainage and Wastewater Fund. Although Seattle Public Utilities may have been responsible for additional costs beyond the \$805,200 allowed under the 4 percent reimbursement agreement, documentation was not available to explain the rationale for authorizing additional funding or to specify the amount.
- First Avenue Northeast and Northeast 130th Street—Seattle Public Utilities reimbursed the Department of Transportation for expenses that exceeded the project manager's authorization level. The project-specific memorandum of understanding initially estimated the cost of the First Avenue Northeast and Northeast 130th Street drainage and wastewater improvements at \$160,000. The Seattle Public Utilities project manager authorized a maximum reimbursement of only \$100,000 following the review of the project design and bid tabulations. Due to internal processing issues, Seattle Public Utilities reimbursed the Department of Transportation \$152,000 from the Drainage and Wastewater Fund.

- First Avenue Northeast and Northeast 130th Street—Seattle Public Utilities also agreed to fund more costly drainage facilities than those required to achieve compliance with the drainage code as specified in the memorandum of agreement, such as a water-quality vault required to meet federal funding and Endangered Species Act requirements. Although the agreement did not specifically allow use of utility funding for drainage facilities required to achieve compliance with the Endangered Species Act, both departments confirmed that the agreement was intended to include project components required to achieve compliance with the Act.³

Despite the above issues, Seattle Public Utilities' reimbursement of these expenses is consistent with the Drainage and Wastewater Fund purposes and the Washington State Accountancy Act, because the ordinance establishing the Drainage and Wastewater Fund allows substantial flexibility in the use of fund proceeds for related capital projects. However, these unauthorized reimbursements suggest the need for more comprehensive procedures and financial reporting on the status of the transportation capital projects to ensure that actual reimbursements correspond to the project-specific agreements, or suggest a need to modify the original project agreements to accurately reflect mutually agreed upon and other practical revisions.

Oversight and Management Controls for Parks Litter Control and Litter Receptacle and Recycling Services Could Be Improved

Seattle Public Utilities has provided solid waste utility funds for litter control, receptacle and recycling services in Seattle parks, and street receptacle and recycling services in West Seattle parks. The memorandum of agreement establishes maximum reimbursement amounts for the services provided by the Department of Parks and Recreation, and requires the Department to provide monthly reports on actual labor, non-labor, and disposal station expenses to Seattle Public Utilities. The agreement authorizes annual reimbursements from the Solid Waste Fund to the Department of Parks and Recreation up to a maximum of \$202,000 for litter control services and a maximum of \$428,000 for litter receptacle and recycling services, or a total of \$630,000.

In practice, the Department of Parks and Recreation did not consistently maintain or submit documentation to Seattle Public Utilities on labor, non-labor, and disposal expenses related to litter control and litter receptacle services, as required by the agreement. Because the Department of Parks and Recreation did not submit any documentation of expenses during the past two years, Seattle Public Utilities was unable to verify that the Department's invoices and billings accurately reflected expenditures authorized under the terms of the agreement.

While the Department of Parks and Recreation indicated that a time-and-motion study was conducted during the 1990s to estimate the reimbursable labor hours for parks litter control activities, the Department was unable to provide the study to Seattle Public Utilities or to audit staff. As a result, we were unable to confirm whether labor costs, which comprise a substantial portion of the total service costs, were reasonable.

³Seattle Public Utilities and the Department of Transportation indicated that the memorandum of agreement will be modified during the Summer of 2003 to include funding provisions related to the Endangered Species Act.

However, audit staff obtained and analyzed Department of Parks and Recreation accounting data to compare the actual labor, inventory, and disposal station expenses and the total reimbursements from the Solid Waste Fund. The expenses and reimbursements are displayed in Exhibit 1 below.

EXHIBIT 1 Department of Parks and Recreation Expenditures and Reimbursements for Litter Control, Receptacle and Recycling Services			
	2000	2001	2002
Labor Costs	\$425,679	\$524,465	\$714,619
Non-Labor and Inventory Costs	24,673	172,048 ^a	27,370
Disposal Station Costs	152,535	23,760	175,476
Total Costs	\$602,887	\$720,273	\$917,465
Total Reimbursement from the Solid Waste Fund	\$630,608	\$630,000	\$630,000
Amount Over-Billed (and Costs Not Billed)	\$ 27,721	(\$ 90,277)	(\$287,465)
Source: Department of Parks and Recreation, Summit Data and Disposal Station Reports, March 2003. Note ^a : Non-labor costs for 2001 include disposal station costs for January through October.			

As shown in Exhibit 1 above, the Department of Parks and Recreation requested and received reimbursements from the Solid Waste Fund that exceeded the actual cost of providing litter control and litter receptacle and recycling services in 2000. Department of Parks and Recreation accounting staff indicated that the charges for 2000 were based on a negotiated monthly rate rather than actual labor, non-labor, and disposal station costs, but was unable to provide a formal agreement or other documentation of the “negotiated” monthly rate.

Exhibit 1 also shows that the Department of Parks and Recreation’s labor costs have increased substantially during the two-year period since the date of the agreement and the maximum reimbursement amount was established. The total costs exceeded the authorized reimbursement amount by approximately \$90,000 in 2001, and by approximately \$287,000 in 2002. Although the Department of Parks and Recreation requested that Seattle Public Utilities increase the maximum reimbursement specified by the agreement to cover the higher cost of providing services in 2001 and 2002, the Department has not provided ongoing documentation to Seattle Public Utilities to support the reimbursements received to date for litter services.

In addition, the Department of Parks and Recreation needed to adjust its labor hour billings by approximately \$185,800 at the end of 2002 from \$528,800 to \$714,600, because parks crews did not consistently charge their work hours to designated activity codes. The labor cost adjustment was based on hours estimated at year-end. Again, the Department of Parks and Recreation was unable to provide the time-and-motion study to confirm whether the adjustments, or the annual labor costs, were reasonable.

Although supporting utility-related parks services through the Solid Waste Fund is a City policy decision, the extent of the support will continue to be an ongoing issue among the departments until adequate documentation of the services is provided. City decision-makers may want to ask the Department of Finance to assume a more active role to ensure that Seattle Public Utilities and the Department of Parks and Recreation fulfill their current obligations, and to ensure that future agreements are legally defensible and feasible, and successfully balance Citywide and departmental objectives. Improving management controls and reporting is crucial to ensure that all litter control services are performed in a manner that is consistent with the Washington State Accountancy Act and the memoranda of agreement. In addition, the Department of Finance may want to consider performing additional analysis (e.g., time-and-motion studies) to substantiate the labor costs charged to the Solid Waste Fund.

Oversight and Management Controls for Department of Transportation Litter Receptacle and Public Place Recycling Services Could Be Improved

The Department of Transportation also receives solid waste utility funding for servicing litter receptacles on public sidewalks, removing illegally dumped materials, and providing on-demand services for recycling and disposal stations and household hazardous waste facilities. The agreement allows a maximum reimbursement of \$740,000 annually from the Solid Waste Fund for Department of Transportation personnel's litter collection and other services.

Based on the review of the litter receptacle and public place recycling services agreement, we found that the Department of Transportation provided monthly documentation of the litter receptacle and recycling services performed. In practice, however, the documentation and reimbursement rates varied from those established in the memorandum of agreement. The reimbursements were based on monthly labor costs rather than the \$3.31 per can rate specified in the agreement. Although the monthly Department of Transportation reports reflect labor costs incurred for litter pickup, refurbishing garbage cans, and other services provided during each reporting period, the expenditure data does not provide sufficient detail of labor hours and overhead expenses. In addition, Seattle Public Utilities and the Department of Transportation have not yet reached an understanding of their roles and responsibilities related to other activities identified in the agreement, such as illegal dumping and related matters on City streets and properties, so the appropriateness of these expenses could not be assessed.

In an effort to determine the cost effectiveness of the services provided by the Department of Transportation, Seattle Public Utilities retained an independent consultant in 2001 to develop a cost-benefit analysis of street-side litter collection options. The analysis compared the costs and benefits of the Department of Transportation's disposal services with those of a commercial

disposal contractor. The results of the analysis suggest that Seattle Public Utilities could reduce annual street-side litter collection expenses by approximately \$230,000.⁴ City decision-makers, however, opted to maintain the existing financial arrangements between Seattle Public Utilities and the Department of Transportation for street-side litter collection.

Again, the extent of the utility support for transportation and parks litter control and litter receptacle services will continue to be an ongoing issue until adequate documentation of the services and service costs is provided. Improved management controls and more comprehensive reporting are needed to ensure compliance with the Washington State Accountancy Act and the memoranda of agreement. Additional analyses would also be beneficial to substantiate the labor costs charged to the Solid Waste Fund.

Observation 2: Seattle Public Utilities and the Departments of Transportation and Parks and Recreation could strengthen both interdepartmental and intradepartmental communications to ensure that City and department-specific objectives are achieved through more effective implementation of the memoranda of agreement.

Although the four master memoranda of agreement and the transportation, capital project-specific memoranda of understanding establish overall objectives and funding arrangements for each department, the three departments have not yet established effective communication processes to implement the agreements. Effective communications are needed to resolve complex and ongoing issues that surface during the implementation phase, particularly during the development of capital improvement projects financed through the agreements.

For example, interdepartmental Joint Executive Teams were established to oversee negotiations and the execution of the master agreements for capital project coordination and litter control and receptacle services. Oversight responsibilities were to include project planning and coordination meetings, and assignment of key staff representatives to manage overall and area-specific aspects of the master agreements. In practice, however, the Joint Executive Teams did not consistently communicate decisions or other information required by key managers and staff representatives to perform required tasks. In addition, the Joint Executive Teams did not document mutually beneficial policy and operational decisions in the form of new memoranda of agreement, addenda to existing agreements, or Director's rules to ensure that key staff representatives understood new expectations and had sufficient guidance to achieve City and department objectives.

Although departmental service obligations, reporting requirements, and financial arrangements are appropriately established in the agreements, key staff representatives responsible for implementation of the agreements have diverse interpretations of the contract provisions and allowable expenditures. In addition, key staff representatives have not consistently adhered to the reporting and reimbursement requirements outlined in the agreements due to the absence of adequate operating policies and procedures to support key managers and staff in implementing the agreements. Because of ineffective internal and external communications, key managers and

⁴The analysis estimated that annual costs to the City as a whole would decrease by only \$30,000, because the Department of Transportation would continue to incur approximately \$200,000 in fixed costs.

personnel from all three departments were not aware that miscommunications and billing errors had occurred during the implementation processes.

Seattle Public Utilities' recurring focus on historical fiscal policy concerns and other City agencies' creative strategies for securing additional funding were also significant barriers to effective communications and implementation of the agreements. Rather than focusing on new or emerging project and operational issues, Seattle Public Utilities' attention was diverted by recurring concerns about "safeguarding" City utility funds for more traditional utility purposes. This concern was not unreasonable given the substantial amount of utility funds allocated to utility-related projects within the Departments of Transportation and Parks and Recreation through utility projects that are perceived as advancing transportation and parks priorities more than those of Seattle Public Utilities, but the concern was a barrier in the implementation of the agreements.

Exhibit 2 below displays the total budgeted 2001 and 2002 utility funding provided to the two departments for projects and services covered by the memoranda of agreement cited above; services covered by other agreements (e.g., Seattle Conservation Corps parks landscape maintenance services contract); and services that are not yet covered by any formal agreements.

EXHIBIT 2 Utility Funds Budgeted in 2001 and 2002 to Support Utility-Related Components of Transportation and Parks and Recreation Projects and Operations			
Funding Support Areas	2001	2002	Two-Year Total
Parks Operations and Maintenance Funding Support	\$ 1,371,000	\$ 1,344,000	\$ 2,715,000
Parks Capital Improvement Project Funding Support	10,214,000	8,821,000	19,035,000
<i>Subtotal</i>	<i>\$11,585,000</i>	<i>\$10,161,000</i>	<i>\$21,746,000</i>
Transportation Operations and Maintenance Funding Support	\$ 2,532,000	\$ 2,643,000	\$ 5,175,000
Transportation Capital Improvement Project Funding Support	1,993,000	5,689,000	7,682,000
<i>Subtotal</i>	<i>\$ 4,525,000</i>	<i>\$ 8,332,000</i>	<i>\$12,857,000</i>
Grand Total	\$16,110,000	\$18,493,000	\$34,603,000
Source: Seattle Public Utilities, <i>Utility Projects with Benefits to the Department of Parks and Recreation</i> and <i>Utility Projects with Benefits to the Department of Transportation</i> , 2002.			

As shown in Exhibit 2 above, Seattle Public Utilities provided approximately \$34.6 million for utility-related capital projects and solid waste services in 2001 and 2002 that advanced transportation and parks priorities. Although the utility funds were used for drainage and solid waste projects in accordance with the Washington State Accountancy Act, Seattle Public Utilities indicated that funding utility projects associated with improving City parks, streets, pathways, and other public resources detracted from its primary mission of providing high-priority drainage, wastewater, and solid waste services paid for by utility ratepayers. This

concern was a substantial barrier to the cooperative relations needed for the practical day-to-day implementation of the agreements.

City policy-makers and the Department of Finance have developed overarching City policies that provide direction to Seattle Public Utilities in funding the select Departments of Transportation and Parks and Recreation capital projects and solid waste services.⁵ City decision-makers may want to request similar information from Seattle Public Utilities on other services financed by utility funds beyond those described in the memoranda of agreement reviewed in this management letter. In addition, City decision-makers may want to ask the Department of Finance to play a more active role in ensuring that future agreements are legally defensible, feasible, and successfully balance Citywide and departmental objectives.

In summary, Seattle Public Utilities and the Departments of Transportation and Parks and Recreation could strengthen the management oversight and accounting processes for transportation and parks projects and services. Both interdepartmental and intradepartmental communications could also be enhanced among the three agencies to ensure that City and department-specific objectives are achieved and to ensure that utility funds are spent in accordance with the agreements.

Additional Suggestions for Improvement

- Seattle Public Utilities could improve the management, guidance and resources provided to project management staff responsible for implementing the transportation capital project agreements. Areas of improvement include developing supplemental agreements or rules to articulate approved policies; streamlining or eliminating provisions that are no longer useful or practical; and ensuring that project management staff has sufficient time to thoroughly review transportation project design plans and document the status of the agreements.
- Seattle Public Utilities and the Departments of Transportation and Parks and Recreation could improve accounting procedures to ensure that reimbursements for all capital projects and litter control and receptacle services do not exceed the actual costs authorized by the agreements. Conversely, the agreements should be modified, as appropriate, to reflect mutually agreed upon financial decisions.
- Seattle Public Utilities should discontinue automatic payments and reimbursements of services performed without adequate documentation of the services performed, and should communicate with the Departments of Transportation and Parks and Recreation on whether reimbursements to the utility funds are necessary for select capital facilities and services. The Department of Finance, in cooperation with the three departments, may want to

⁵The *Drainage Improvements and Operations City Budget Office Issue Paper* (June 5, 1998) is one of numerous documents articulating City financial policies regarding the use of utility funds to support services provided by the Departments of Transportation and Parks and Recreation. The issue paper states: "It is the belief of the Department of Finance, after meeting with representatives of the Law Department, that the recommendations in this issue paper do nothing to jeopardize the legality of the drainage rate. In fact, these recommendations can be viewed as removing some of the ambiguity that exists in the current financial arrangements between [the agencies]. In the cases when these recommendations extend Seattle Public Utilities into new areas, these are all done to address drainage costs and will only be implemented when reasonable cost allocation methods are determined."

determine whether additional analysis (e.g., time-and-motion studies) would be beneficial to substantiate costs charged to the utility funds.

- Seattle Public Utilities, in cooperation with the Departments of Transportation and Parks and Recreation, could strengthen intradepartmental and interdepartmental communications to promote efficient project implementation and service provision.
- The Joint Executive Teams should direct key staff to develop progress reports for capital improvement projects and to submit documentation of litter control and disposal services provided by the transportation and parks crews.
- Seattle Public Utilities could develop an annual management report to the Mayor for transmission to the City Council summarizing all transportation and parks projects and services funded, the adopted budget and the actual expenditures for the reporting period regardless of whether the services are covered through memoranda of agreements.

Please contact me if you have any questions or additional comments regarding our review or recommendations. Thank you.

SC:SB:WSH:tlb

Attachment: Executive Responses
Seattle Public Utilities
Department of Transportation
Department of Parks and Recreation

EXECUTIVE RESPONSES



City of Seattle

Gregory J. Nickels, Mayor

Seattle Public Utilities

Chuck Clarke, Director

MEMORANDUM

Date: September 8, 2003

To: Susan Cohen, City Auditor

From : Chuck Clarke

Subject: Comments on the Draft Report, *Seattle Public Utilities' and the Department of Transportation's and Parks and Recreation's Compliance with the State Accountancy Act (August 21, 2003)*

Thank you for the opportunity to review and comment on the above report. I appreciate the thoroughness and professionalism of your staff in conducting this review. My staff have reported that you have been very open and willing to discuss findings and suggestions with us, and respond to comments forwarded by the Departments.

Seattle Public Utilities has no further comments on the Draft Report. I do want to share with you followup actions I have directed staff to undertake in response to your report:

These followup actions will be managed and reviewed by the SPU/SDOT Joint Executive Team (JET):

- Undertake process improvements in accounting, documentation, and reporting. I have also asked that these processes be streamlined so that information can be exchanged and documented more efficiently.
- Review the current MOA, and revise it as appropriate to reflect necessary updates, and process improvements.

I have asked the SPU/Parks JET to oversee the following:

- Streamline the various MOAs executed to date.
- Ensure appropriate documentation and reporting of expenditures and tasks executed.



Key Tower Building, 700 5th Avenue, Suite 4900, Seattle, WA 98104-5004

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Susan Cohen
September 8, 2003
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I have also asked that this work be concluded by the end of this year, and that any revised agreements be executed in time for implementation in 2004.

Finally, we will consult with the Mayor's office to discuss your suggestions regarding an annual management report.

Please feel free to contact Terry Kakida, principal staff support for SPU, (615-0507, terry.kakida@seattle.gov) with any questions on our followup actions. Again, thank you for your thoughtful review and open process.

TK
ccauditreview.doc

cc: Susan Baugh, City Auditor's Office
Wendy SooHoo, City Auditor's Office
Andrew Lofton, Mayor's Office
Regina LaBelle, Mayor's Office
Will Patton, Law Department
Ken Bounds, Seattle Department of Parks and Recreation
Grace Crumican, Seattle Department of Transportation
Sarah Welch, Seattle Department of Parks and Recreation
Nancy Ahern
Scott Haskins
Tom Tanner
Terry Kakida



Seattle Department of Transportation

Gregory J. Nickels, Mayor

Grace Crunican, Director

Memorandum

DATE: September 12, 2003

TO: Susan Baugh, City Auditor's Office

FROM: Richard Miller, Director
Capital Projects and Roadway Structures Division
Seattle Department of Transportation

SUBJECT: Comments on Draft Report from the City Auditor, "Seattle Public Utilities' and the Departments of Transportation's and Parks and Recreation's Compliance with the Washington State Accountancy Act (August 21, 2003)"

Thank you for the opportunity to review and comment on the subject Draft audit report. We appreciate the efforts of your staff to discuss findings and issues related to the Memorandum of Agreement (MOA) for Drainage and Wastewater Funds.

As a result of our experience in implementing the MOA over the past two years, and in response to items in the audit report, SDOT staff are working with SPU to:

- Improve and streamline our accounting, documentation and reporting procedures to provide timely and useful information to project managers, finance staff, and management.
- Revise the current MOA to reflect improvements to the process and to make it a more useful tool for staff and managers.
- Identify the best way to communicate success and challenges related to the MOA to the Mayor's office and other stakeholders.

SDOT staff have looked into the two projects called out in the audit report: Spokane Street – Phase 3 (Contract 3 of the Spokane Street Viaduct Widening Project) and First Avenue NE and NE 130th Street and the following are the results. We request that these comments be included as part of the audit records.

Spokane Street – Phase 3

A project Memorandum of Understanding (MOU) was signed by SPU on June 6, 2001 authorizing \$1,696,000 in Stormwater Compliance Funds. As noted on the MOU the estimated costs were based upon the Engineer's Estimate prior to bidding the contract. The \$805,000 referred to in the audit report was in independent of the estimated cost; however, it did not include what are referred to a "common" bid items that are proportionally distributed to funding sources. This includes bid items such as, Mobilization, Traffic Control, and Detours. The construction management and administration costs are also proportionally shared. Any change orders during construction would also have impact fund sources. We have prepared documentation to support the costs that are in excess of \$1,696,000 and submitted them to SPU; however, SPU has only been billed for \$1,696,000.



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Susan Baugh
September 18, 2003
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First Avenue NE and NE 130th Street

The improvements at 1st Ave NE and NE 130th St were part of a contract that included work at the intersection of Queen Anne Ave N and W Boston St. It should be noted that the MOU was prepared and signed after construction was completed because eligibility of the improvements required to comply with the Endangered Species Act (ESA) was unresolved when construction started. SPU's assessment of costs when the MOU was submitted is a revision to the bid items and quantities established when the contract was advertised and awarded. These total \$128,593.44 according to Pay Estimate No. 7 for the contract through July 25, 2002. SDOT is willing to negotiate and revise the original funding allocation if requested by SPU. A "Lesson Learned" from this project is that a "final" adjustment is necessary at the conclusion of construction once the contract has been accepted and actual labor costs are identified.

We believe that the audit report indicates that one final process be introduced to the MOA to ensure that the SPU funds have been used appropriately. We will recommend to the JET that an audit be performed at the completion of construction for each project that will adjust and reflect any changes that occurred during construction. The point in time to initiate the audit is when SPU submits the Project for Acceptance/Completion to the Contracting Services Division of the Department of Executive Services. A majority of the labor costs associated with projects should be available to use in allocating costs between any of the funding sources. The cost adjustments can be reflected in the list of projects receiving 4% funds to maintain oversight of projected and actual costs against funds budgeted.

Staff from SDOT will continue to work directly with SPU to incorporate "lessons learned" and process improvements. Once again, we appreciate your review of the MOA and process to include comments from both departments. Please feel free to contact Frank Yanagimachi (684-5178) or Kristen Simpson (684-0983) in SDOT if you have any questions.

Cc: Grace Crunican, SDOT
Anne Fiske-Zuniga, SDOT
Susan Sanchez, SDOT
Jim Dare, SDOT
Stu Nelson, SDOT
Frank Yanagimachi, SDOT
Kristen Simpson, SDOT
Chuck Clarke, SPU
Terry Kakida, SPU



City of Seattle

Gregory J. Nickels, Mayor

Seattle Department of Parks and Recreation

Kenneth R. Bounds, Superintendent

DATE: September 2, 2003

TO: Susan Cohen, City Auditor
Attention: Susan Baugh

FROM: Kenneth R. Bounds, Superintendent

SUBJECT: Draft Audit Report Regarding Parks and SPU Agreement

Thank you for the opportunity to review and comment on the draft audit **Seattle Public Utilities' and the Department of Transportations' and Parks and Recreation's Compliance with the Washington State Accountancy Act.**

I agree with the audit findings in general but do have a few factual corrections and comments. In addition, I am directing Parks staff to make revisions to the procedure that Parks uses to invoice Seattle Public Utilities for litter and garbage collection services. These revisions should ensure that Seattle Public Utilities staff can monitor Parks expenditures for accuracy.

Factual Corrections

The Introduction and Background section on Litter Control in Downtown Parks and Litter Receptacle and Recycling Services on Page 2 states that litter receptacle and recycling services are for West Seattle parks. These services cover all Seattle Parks. In addition to servicing litter receptacles in Seattle parks, Parks staff also service street receptacles in West Seattle under the agreement.

This change should also be made to the last paragraph on page 4.

Comments

Throughout the years since Parks and SPU operated this arrangement, different versions of the agreement applied to different time periods. The audit report refers to a master agreement in several sections of the report. I understand that this applies to the updated MOA's signed by Parks and SPU in January of 2001. This is not a reference to the original agreement. As discussed in the report, the original agreement included specific monthly reporting requirements. Parks did comply with these reporting requirements until 1996 when a new agreement was developed and signed that changed the documentation and reporting requirements. This 1996 agreement provides that Parks will provide records upon request, rather than monthly. Parks has complied with this amended agreement from 1996-2001 when the MOA was updated again and the reporting requirements changed. A copy of the 1996 agreement is attached. It was included in the binder of information provided to your staff by

100 Dexter Avenue North, Seattle, WA 98109-5199

Tel: (206) 684-4075, TDD: (206) 233-7061 Internet: <http://www.cityofseattle.net/parks>

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Parks staff. Parks operations staff were not aware in 2001 that the reporting requirements changed and so continued to operate on the instructions in the 1996 agreement. We have now updated our understanding as a result of this audit.

Revisions to Invoicing Procedures

I am directing staff to revise our invoicing procedures for litter collection in downtown parks and for litter receptacle services. We are currently using the automatic billing system to invoice Seattle Public Utilities for these services but we will change that this year to a manual invoicing system. Staff will now generate a manual invoice that includes all of the documentation required prior to the 1996 agreement and consistent with the 2001 MOA changes. Documentation will include the following items.

- Labor hours charged to litter collection in downtown parks and litter receptacle servicing in all Seattle parks.
- Tonnage and disposal costs for these services.
- Equipment and supply costs for litter receptacle servicing.

This documentation will be included with each invoice. Invoice frequency will be established in a new agreement between Parks and Seattle Public Utilities.

As for your recommendations that SPU and Parks jointly work to simplify the requirements contained in our Agreement, we agreed at our last JET's meeting to undertake this effort this year.

Finally, we appreciate the work of your office and the efforts you and your staff have made over these past couple of years to answer the questions that many people around the City had regarding compliance with the Washington State Accountancy Act. We are pleased your report acknowledges that these expenditures for litter pick up and recycling are allowable under the Act. Thank you for your hard work on this project.

Thank you, again, for the opportunity to review and comment on the draft audit report.

cc: Sarah Welch, Parks Finance and Administration Director
Christopher Williams, Parks and Recreation Operations Director
Chuck Clarke, Director, Seattle Public Utilities